

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6603

BILL NUMBER: SB 405

NOTE PREPARED: Feb 3, 2015

BILL AMENDED: Feb 3, 2015

SUBJECT: Assessment of agricultural land.

FIRST AUTHOR: Sen. Leising

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) *Soil Productivity Factors*: This bill provides that the soil productivity factors used for the March 1, 2011, assessment of agricultural land must be used for assessment dates occurring after March 1, 2014, unless and until new soil productivity factors are approved in a statute enacted by the General Assembly.

Assessment Rules: The bill specifies the manner in which the Department of Local Government Finance (DLGF) shall adopt rules to provide a method for determining the true tax value of agricultural land. It provides that the method in effect for the 2014 assessment date must be used until superseded by a method provided in rules adopted by the DLGF. The bill provides that the rules do not apply to a particular assessment date unless the rules take effect at least 120 days before that assessment date.

Base Rate: The bill also provides that for purposes of the 2015 assessment date, the statewide agricultural land base rate value per acre used to determine the value of agricultural land is \$2,050.

Land Classification: This bill provides that an assessing official may not reclassify a taxpayer's parcel of agricultural land as excess residential land unless the assessing official provides the taxpayer with written notice of the change in classification at least one hundred eighty (180) days before the assessment date.

The bill requires the property tax assessment board of appeals (PTABOA) to conduct a hearing on the proposed reclassification upon the request of the taxpayer. It provides that if the assessing official proves by a preponderance of the evidence that: (1) the taxpayer's land has been subdivided into lots; or (2) the taxpayer's use of the parcel has changed; so that the parcel is not eligible for assessment as agricultural land, the PTABOA shall approve the reclassification of the taxpayer's parcel.

Effective Date: January 1, 2015 (retroactive).

Explanation of State Expenditures: *Assessment Rules:* The DLGF would be able to complete the rulemaking requirement under this bill using existing resources. This provision requires the DLGF to adopt rules regarding the method of assessment of agricultural property, notwithstanding any law or executive order to the contrary.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Soil Productivity Factors:* Under this bill, the current soil productivity factors will remain in place until such time as the General Assembly approves new factors. The tax shift from all property types to farmland that could otherwise result from the use of the new factors will not occur. Nor will the small reduction in circuit breaker losses and the small reduction in TIF proceeds that could otherwise occur.

Base Rate: Compared to current law, this provision will result in lower property tax liabilities for farmland owners and higher liabilities on other property types, for 2016 only. Under current law, the base rate of assessment for an acre equals \$2,050 for taxes payable in 2015, and is estimated at \$2,420 for 2016, and \$2,770 for 2018. This bill sets the 2016 base rate \$2,050 (the same as 2015). The base rate will return to current estimates in 2017. The table below shows the estimated change in 2016 net tax by taxpayer type.

Property Type	Net Tax Change (M)
Homesteads	\$ 15.3
Nonhomestead Residential	5.4
Apartments	0.3
Farmland	-52.4
Other Agricultural Real Property	3.8
Other Real Property	7.4
Personal Property	10.2
Total	-10.0

For taxing units, circuit breaker losses would be increased by \$13.0 M, cumulative and referendum operating fund levies would be reduced by \$0.4 M, and gross TIF revenue would be increased by \$3.3 M. Total net revenues would decrease by \$10.0 M. The cost of COIT-funded homestead credits would increase by \$0.1 M in the ten adopting counties.

(Revised) *Land Classification:* The bill permits an assessor to reclassify agricultural land only after giving at least 180 days notice prior to the assessment date. The PTABOA must conduct a hearing on the matter upon the taxpayer's request. If a hearing is conducted, the land may be reclassified only if the assessor proves that the land is not eligible for assessment as agricultural land because it has been subdivided or its use has changed. This provision could reduce the amount of agricultural land being reclassified. Reclassification generally increases the assessed value, so increases in AV due to reclassification will be curtailed.

Additional Information - Soil Factors - Each farmland assessment begins with the base value per acre, which is \$2,050 for taxes payable in 2015. The base value is then adjusted by the soil productivity factor and influence factors to calculate the assessed value for a particular parcel. Each parcel may have multiple soil types.

In February 2012, the DLGF released updated soil productivity factors for use in farmland assessments beginning with the 2012 Pay 2013 tax year. These factors would have caused an estimated 25.5% increase in farmland assessments.

Under SEA 19-2012, the implementation of the updated factors was delayed from 2013 taxes until taxes payable in 2014.

Under SEA 319-2013, the implementation of updated factors was delayed by an additional year until taxes payable in 2015. This act also required the DLGF to work with the Purdue University College of Agriculture to develop new soil productivity factors.

Under SEA 111-2014, the implementation of updated factors was delayed by an additional year until taxes payable in 2016.

During the 2013 interim, the DLGF presented draft soil productivity factors developed in conjunction with Purdue University. An LSA analysis of these draft factors suggested that the statewide weighted average factor would be 1.006. This is an average 5.9% increase from the statewide weighted average of the current factors, which is 0.951.

If implemented, the draft factors would increase the statewide total farmland assessed value (AV) by 5.9%. As a result of the farmland AV increase, some tax rates would be reduced. The lower tax rates would cause a small reduction in net tax bills for all other property types and a small reduction in circuit breaker losses for civil taxing units and school corporations. In addition, the lower tax rates would cause a small reduction in TIF proceeds.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors; County boards of property tax appeals; Civil taxing units and school corporations.

Information Sources: LSA property tax model.

Fiscal Analyst: Bob Sigalow, 317-232-9859.